



NPA

Office of the National Public Auditor



Annual Report

Fiscal Year 2013

Acronyms

ADB	Asian Development Bank
AGA	Association of Government Accountants
AG	Attorney General
ACFE	Association of Certified Fraud Examiners
APIPA	Association of Pacific Island Public Auditors
ASMC	American Society of Military Comptrollers
AusAID	Australian Agency for International Development
CFE	Certified Fraud Examiner
CDHS	Chuuk State Department of Health Services
CDOE	Chuuk State Department of Education
CGAP	Certified Government Auditing Professional
CID	Compliance Investigation Division
CIP	Capital Improvement Project
CPA	Certified Public Accountant
CPE	Continuing Professional Education
CSCIP	Chuuk State Capital Improvement Project
DFA	Department of Finance and Administration
DOI US	Department of Interior
DOJ	Department of Justice
EEZ	Exclusive Economic Zone
FAP	Fraud Awareness Prevention
FMR	Financial Management Regulation
FSM	Federated States of Micronesia
FY	Fiscal Year
GAAP	General Accepted Accounting Principles
GAGAS	Generally Accepted Government Auditing Standards
HRM	Human Resource Management
IIA	Institute of Internal Auditors
IAACA	International Association of Anti-Corruption Authorities
IDI	INTOSAI Development Initiative
IGPC	Inter Governmental Philatelic Corporation
INTOSAI	International Organization of Supreme Audit Institutions
ISSAI	International Standard of Supreme Audit Institutions
JFPR	Japan Fund for Poverty Reduction
MOU	Memorandum of Understanding
MICR	Magnetic Ink Character Recognition
MTCU	Micronesia Transnational Crime Unit
NOC	National Olympic Committee
OCE	Other Consumable Expenses
OIA	US Department of Interior, Office of Insular Affairs
OIG	Office of the Inspector General
OJT	On-the-Job Training
OMB	US Office of Management and Budget
ONPA	Office of the National Public Auditor
PASAI	Pacific Association of Supreme Audit Institutions
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PRAI	Pacific Regional Audit Initiative
SAI	Supreme Audit Institution
SBOC	Statistic, Budget & Economic Management, Overseas Department Assistance & Compact Management
SDP	Strategic Development Plan
SEG	Supplemental Education Grant
TPA	Third Party Administrator
UNDESA	United Nations Department of Economic and Social Affairs
UNCAC	United Nations Convention Against Corruption

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FEDERATED STATES OF MICRONESIA

Office of The National Public Auditor

P.O. Box PS-05, Palikir, Pohnpei FSM 96941

Tel: (691) 320-2862/2863 Fax: (691) 320-5482

CID Hotline: (691) 320-6768; E-mail: hhainrick@fsmopa.fm

Excellency Manny Mori, President
Honorable Members, FSM Congress

I am happy to submit to you the annual report for the Office of the National Public Auditor for Fiscal Year 2013. Thank you very much for your continuing support.

Respectfully submitted

A handwritten signature in blue ink, appearing to read "Haser Hainrick".

Haser Hainrick
National Public Auditor

January 2014

Executive Summary

As required by law, this annual report serves to inform the President and Congress about the National Public Auditor's progress and performance in safeguarding the Nation's assets through audits and investigations that lead to improving government operations, efficiency and accountability.

During the fiscal year FY 2013, we completed four performance audits and twenty four single audits; referred two investigated cases to DOJ for legal review and action and closed two investigative cases (i.e. issued an advisory management); attended ten (10) various trainings, conferences and workshops; and updated our Strategic Plan covering fiscal years 2014, 2015 and 2016.

The results of the audits and investigations disclosed weaknesses and opportunities for improvements and promoted transparency and accountability in government. However, we've identified the need for an effective audit follow-up process of audit issues and resolution of investigated cases as indicated in our reports.

The four completed performance audits include: (1) Memorandum of Understanding (MOU) with non compliance of applicable laws and terms of the MOU; (2) CFSM Public Projects with lack of effective execution of existing controls and non compliance with FMR, FMA and other applicable laws, policies and regulations; (3) National Postal Services with ineffective management and protection of inventory of postage stamps and other philatelic products; and (4) National Division of Labor and Immigration with inadequate processes and controls to implement the requirements of the law in protecting resident workers and giving preference to residents for employment opportunities.

The twenty four Single Audits include FSM National Government and its nine component units, Pohnpei State Government and its three component units, Chuuk State Government and its two component units, Yap State Government and its three component units and Kosrae State Government and its two component units. Two out of twenty four single audits were issued adverse or qualified audit opinion; Chuuk State Government received a qualified audit opinion due to inability to record a liability for land leases and related claims payable in the governmental activities for the fiscal year ended September 30, 2012, and Yap State Government received an adverse audit opinion for un-availability of two component units' financial statements. The remaining twenty two single audits received an unqualified/ clean audit opinion.

Compliance Investigation Division (CID) received 9 complaints, referred one case to DOJ for legal review/action and one case to Audit Division for audit, and closed two cases. The allegations made were misuse of funds, payroll, misuse of assets and account, missing of equipment, and tax evasion.

The ten types of audit and investigative trainings, conferences and workshops attended were to continuously strengthen the staff capacity building. Except for CGAP In-House Training and Strategic Planning In-House Workshop, these trainings, conferences and workshops were funded through different sources. Some training fund sources include: PASAI, DOI/OIG, ONPA Budget, Road Map¹ and technical grants.

We have also updated our Strategic Plan for fiscal years 2014, 2015 and 2016 to provide a continuous work guide and to focus on our time, ability and resources. In addition to the above

¹ Road map is a training fund source for the FSM National Government.

mentioned accomplishments, we continued to effectively promote transparency through this required annual report, our office website and the local media, Kaselehlie Press. Digital copies of our audit reports issued since 2000, trainings and other activities' articles can be found on our website at www.fsmopa.fm. Some of our audit press releases can be located in the Kaselehlie Press website at www.kpress.fm and in the PASAI website at www.pasai.org. Hard copies of our audit reports can be located in our office lobby in Palikir.

ONPA's Vision, Mission and Core Values

Vision

High performance, transparent and accountable government

Mission

We conduct audits and investigations to improve good governance and prevent fraud, waste and abuse for the public's benefit.

Core values

Independence—we remain independent in mind and in appearance to be able to act with integrity and exercise objectivity and professional skepticism in our professional responsibilities. We do not allow any form of interference, conflict, threat or impairment in determining the scope, performing the work and in communicating the results of our work.

Professionalism—we conduct ourselves in a competent and professional manner while upholding our code of ethics and professional standard behavior.

Public Service—we place priority on our responsibilities to the public's interest and to honor the public trust. To meet this, we observe integrity and objectivity in discharging our professional responsibilities.

Integrity—to maintain the public confidence, we conduct our work with an attitude that is objective, fact-based, nonpartisan and non-ideological and we report our findings without fear or favor.

Performance Measures

Performance measures relate to the desired results of our audits and investigations and the ability to monitor and assess the progress of our work. We measure our performance through understandable, timely and useful reports, accepted and implemented recommendations, improvement in governmental practices and operations, and fiscal impact.

Duties of the National Public Auditor

The Public Auditor is the nation's premier watchdog against government waste, fraud and abuse and helps in providing assurance that funds are properly managed and expended in an appropriate, transparent and accountable manner. The Public Auditor plays a key role in combating financial crime and corruption involving the use of the National Compact Funds. The Public Auditor's office is authorized by statute to examine and evaluate the adequacy and effectiveness of systems of management control provided by the National Government policies, plans and directives. The FSM President, with the advice of the FSM Congress, appoints the Public Auditor. ([Refer to Appendix I for more information on powers, duties and responsibilities of the Public Auditor.](#))

ONPA Organization

The ONPA organization consists of three divisions – Administration, Audit and Investigation. The office sections include Single Audit and Information System. The Public Auditor is the director of

the office with a total of 21 permanent employees, including the staff at the Chuuk field office. ([Refer to Appendix II for the organizational chart](#))

Administration Division

The personnel under Administration Division consist of the Public Auditor, Administrative Officer, Information Technology Specialist and the Executive Secretary. This division handles all office support activities for the core operations for the main office in Palikir, Pohnpei and the field office in Chuuk.

Budget

A total of \$716,243 was appropriated by Congress for the operation of ONPA for fiscal year 2013. Amount expended during the fiscal year totaled \$597,493.19 and the amount available by the end of the fiscal year totaled \$118,749.81.

MAIN OFFICE					
Budget Category	Approved Budget	Allotted Budget	Reprogrammed	Expended	Available
Personnel	\$ 441,792.00	\$ 441,792.00		\$ 363,947.61	\$ 77,844.39
Travel	\$ 135,951.00	\$ 135,951.00	\$ (7,500.00)	\$ 122,404.08	\$ 6,046.92
Contractual Services	\$ 86,000.00	\$ 86,000.00	\$ (22,000.00)	\$ 35,615.78	\$ 28,384.22
OCE	\$ 52,500.00	\$ 52,500.00	\$ 7,500.00	\$ 55,706.72	\$ 4,293.28
Fixed Assets	\$ -		\$ 22,000.00	\$ 19,819.00	\$ 2,181.00
Sub-total	\$ 716,243.00	\$ 716,243.00		\$ 597,493.19	\$ 118,749.81

Information Technology Section

The Information Technology Section under the Administration Division supports and maintains the existing computer network. Among others, the responsibilities of the lone IT Specialist under this section include monitoring of the office computer network, installing and reporting of computers and network components, troubleshooting computer problems and maintaining the office website.

Audit Division

Audit Division provides the audit services. The types of audits conducted by this division are performance audits, financial audits, attestation engagements, and inspections. Inspection is an alternate type of study that may be conducted by the ONPA and is defined as a process that evaluates, reviews, studies, and/or analyzes the programs and activities of a Department/Agency for the purpose of providing information to managers for decision making. Regardless of the variation in the audits, all works are performed in conformity with either Generally Accepted Government Auditing Standards (GAGAS), known widely as the "Yellow book", issued by the U.S. Government Accountability Office or the Quality Standards for Inspections (QSI) issued by the U.S. Council of the Inspectors General on Integrity and Ethics (CIGIE). ([Refer to Appendix II under Audit Division for audit and inspection standards](#))

Single Audit Section

FSM National and State Governments are required to have their general purpose financial statements audited annually. This single audit (financial audit) work is done by an independent CPA firm under the Compact of Free Association agreement between the FSM and the United States of America. Under OMB Circular A-133², audits of financial statements are conducted in order to provide reasonable assurance that the financial statements, as a whole, present fairly the financial position of the respective entities. Achieving the Compact's requirement regarding single audits is very critical as the fund donors must know how their financial assistance was spent and what it was used for in the FSM. Also, decision-makers within the FSM Governments need current financial data in order to make sound decisions.

Under the annual Memorandum of Understanding (MOU) for Single Audits between the FSM and the US, the single audits are to be equally funded by both the FSM and the US. The US Department of Interior's Office of the Insular Affairs is the cognizant agency for the single audits and provides the US portion of the funds.

The Office of the National Public Auditor (ONPA) has full management and oversight responsibilities for the single audits. For fiscal years 2012, 2013 and 2014, ONPA contracted Deloitte & Touche to perform the single audits for the entire FSM Governments and their respective component units. At the end of each month until the June 30th deadline, updates are received from Deloitte & Touche on the status of the Single Audits. These updates are then compiled into a monthly status report and distributed to senior officials at the National Government and the State Governments, along with the management of each component units.

Compliance Investigation Division

The Compliance Investigation Division (CID) provides the investigation services. The CID has two primary investigation functions: administrative and criminal functions. The criminal function came about under the provisions of a 2005 Memorandum of Understanding (MOU) between the ONPA and the FSM Department of Justice (DOJ).

CID's professional responsibilities are to identify systems and accountability weaknesses in the Nation's financial administration and gathers evidence of criminal activity for appropriate legal review and action. CID uses Quality Standards for Investigations which streamlines their investigating and reporting process. ([Refer to Appendix III under Compliance Investigation Division for the general and qualitative standards for investigations](#))

Audit Division FY 2013 Accomplishments

ONPA prepares written audit reports which communicate the results of each audit and inspection to the agencies under audit, stakeholders, and the general public. These reports identify areas of weaknesses followed by recommendations for corrective actions and improvements. To ensure full disclosure and transparency of government financial activities, digital copies are also available at

² OMB Circular A-133 was issued pursuant to the Single Audit Act of 1984 as amended, P.L. 98-502, and the Single Audit Act Amendments of 1996, P.L. 104-156. This sets forth standards for obtaining consistency and uniformity among federal agencies for the audit of states, local governments, and non-profit organizations expending federal awards. Subject B of A-133 sets a threshold amount of \$500,000 for federal monies that are expended during a year to be audited.

the ONPA website at www.fsmopa.fm or at the office lobby for public review. The reports generally include the objective, scope, methodology, findings and recommendations.

During fiscal year 2013, ONPA issued the following reports which we summarized the objective(s) and findings.

Performance Audits

(1) Audit Report No. 2013-01: Inspection of the Memorandum of Understanding between the National Government and the states of Chuuk and Kosrae

In 2007, two MOUs were executed between the national government and the states of Chuuk and Kosrae. The agreements were made in response to the state governments' financial crisis that resulted in the inability of the two states to advance their own money as required by the U.S. Government grants. The financial crisis threatened the continued viability of the federal programs funded by grants. The MOUs resulted in the National Government's practice of advancing cash from its General Fund to finance the activities funded by the federal grants under the MOUs and then later collect the reimbursements of such expenditures from the concerned U.S. federal agencies that gave the grants.

The Chairman of Ways and Means Committee of the FSM Congress requested the Public Auditor to review the practice of advancing cash (up fronting of cash) from the General Fund. He believed it was not contemplated under the terms of the two Memoranda of Understanding (MOUs) that were executed between the national government and the states of Chuuk and Kosrae.

The objectives of our inspection were to determine whether:

1. The terms of the MOUs allowed for the advancing of cash from the General Fund.
2. In implementing the terms of the MOUs, the Department of Finance and Administration (DF&A) has been (1) advancing cash from the General Fund, and (2) handling grant funds under the MOUs in accordance with applicable FSM laws.
3. The concerned departments from the FSM National Government have included only the discretionary grants, as agreed, in the implementation of the MOUs.

Based on the inspection, the ONPA concluded that the terms of the MOUs did not expressly allow but implied the advancing of cash to make the MOUs work. The MOUs further implied that all the financial transactions for the grants should comply with the applicable FSM laws and regulations. However, during the review of the related processes used in implementing the MOUs, ONPA found non-compliance with the applicable laws and the terms of the MOUs. The findings were as follow:

1. The terms of the MOUs implied for the advancing of money from the General Fund but such advancing of money should be subject to compliance with the FSM laws.
2. Cash advances from the General Fund were made to implement the MOUs but they were not appropriated by the FSM Congress as required by law. Based on the advice of allotment prepared and approved by SBOC, the DF&A paid approximately \$11.5 million accumulated cash advances from the General Fund from year 2007 to 2012 without the FSM Congress' appropriation.

3. The actual implementation of the MOUs was not limited to discretionary grants that was agreed upon per the terms of the MOUs but covered all the types of federal grant given to the states

The findings were discussed with officials from DF&A and SBOC in which they generally agreed with (ONPA, June 2013).

(2) Audit Report No. 2013-02: Audit of CFSM Public Project

The objective of the audit was to determine whether the administration of CFSM public projects complied with the FMA, FMR and other applicable laws, policies, and regulations.

The audit concluded that the overall implementation process from project control documents (PCDs) to vendor payment to project close-out and reporting, lacked effective execution of existing controls and did not comply with the FMA, FMR and other applicable laws, policies, and regulations. As a result, the citizens of the FSM may have realized significantly less value for the use of public funds. The following were the significant issues:

1. Failure to execute key controls and activities concerning PCDs weakened the entire process involving the funding of CFSM public projects;
2. Lack of monitoring, controlling and reporting of 47 CFSM public projects across FSM (41 in Chuuk) resulted in overspending of \$149,033 against the related funds appropriated by law;
3. Expenditures of \$306,521 could not be verified due to lack of adequate supporting documentation on file or with no documentation to verify the existence and satisfactory completion of projects;
4. Assets were being misused for personal purposes or lost; and
5. Disbursement of \$401,619 was made without the attachment of the required certification of completion of projects.

ONPA staff discussed the findings with the Secretaries of DF&A and SBOC and the Acting Director of Chuuk State Commission on Improvement Projects. However, ONPA only received responses from the Secretary of DF&A and Director of SBOC in which they agreed with the findings and recommendations (ONPA, April 2013).

(3) Audit Report No. 2013-03: Audit of National Postal Service

The audit of the National Postal Service was conducted in response to the Postmaster General's request considering her recent assumption of the post and the need to understand the overall circumstances of the FSM Post Offices. The audit objective was to determine whether:

1. Stamp stocks and other philatelic products reflected on records were being counted, managed, and protected.
2. All revenues due to NPS from IGPC and postal clerks' sales were collected and properly accounted for.

The ONPA concluded that there was potential for improvement in the areas of management and protection of inventory of postage stamps and philatelic products. Furthermore, improvement in control was also necessary to ensure that revenues due to NPS from IGPC are fully collected. The findings disclosed the following:

1. \$5.9 million worth of postage and philatelic projects inventory as of fiscal year ending 2011 equivalent to 16 years sales was excessive.

2. \$467,550 expired and damaged postage stamps and stamp papers that accumulated in the inventory were equivalent to a little over one-year sales.
3. Lack of internal control procedures in the stock room and sales agents' operations caused unexplained large amount of stock count discrepancies.
4. Inadequate segregation of duties increased the risk of fraud and undetected errors
5. Inadequate contract monitoring caused the failure to collect postal revenue amounting to \$76,482 as well as the failure to check the accuracy of income and financial reporting.

The ONPA staff discussed the findings with the Postmaster General and other key staff of NPS in which in their response, indicated their agreement with the findings (ONPA, April 2013).

(4) Audit Report No. 2013-04: Audit of the National Division of Labor and Immigration

The audit was conducted in response to the request from the FSM President to determine whether the FSM National Government's Division of Immigration and Labor (DIL) has been properly enforcing the national immigration and labor laws. Likewise, the President wants to determine whether (a) there is adequate enforcement of immigration/labor laws and regulations, and (b) there are any weaknesses in the system that warrant further review for possible reforms. Thus, the audit objectives were to determine whether the national Division of Immigration and Labor implemented processes and controls:

1. To protect resident workers and give preference to them for job opportunities.
2. To continuously assess and develop the knowledge and skills of the citizens to achieve sustainable local workforce.

ONPA concluded that the national DIL did not adequately practice processes and controls to implement the requirements of the law in order to protect resident workers and to give preference to residents for employment opportunities. The findings included the following:

1. The functions required by the law to protect resident workers were not performed adequately by the DIL.
2. There was no labor law to afford protection to labor and promote employment and human resources development in the private sector.
3. The referral of qualified residents using a registration system required by law was not in place.
4. Non-compliance with the required job vacancy announcement resulted in qualified resident workers not aware of some job opportunities.
5. The absence of evaluation to determine what period of time, under what conditions and whether the employment of nonresident workers would be in the best interests of the nation, resulted in the continuing dependence on non-resident workers.
6. Absence of standard job classification with defined job contents and requirements could result in hiring of favored and unqualified non-resident workers.
7. Training and capacity building programs not monitored whether progressively and effectively promoting sustainable manpower.
8. About \$3 million yearly scholarship fund not clearly addressing the critical need areas in the nation's workforce.

Management agreed with all the findings and recommendations (ONPA, June 2013).

Single Audit Section FY 2013 Accomplishments

Single audit report is a financial audit report of an auditor's opinion on internal control over financial reporting of a department, office or entity. The opinion should identify whether the financial statements have or does not have material weaknesses/ misstatements. There are three types of audit opinions: unqualified, qualified or disclaimer, and adverse.

An unqualified audit opinion is used when there are no identified material weaknesses and there have been no restrictions on the scope of the auditor's work on internal control over financial reporting. A qualified or disclaimer audit opinion is used when there is a limitation on the scope of the audit or failure to follow generally accepted accounting principles (GAAP). An adverse audit opinion is used when the overall financial statements are materially misstated or misleading that they do not present fairly the financial position or results of operation and cash flows in conformity with GAAP. (Arens, 2008)

Single Audits

Twenty four single audits were issued this fiscal year which was conducted by Deloitte and Touche. The single audit reports are for the FSM National Government and its nine component units³, Pohnpei State Government and its three component units, Chuuk State and its two component units, Yap State Government and its three component units and Kosrae State Government and its two component units.

The FSM National Government and all its component units received unqualified audit opinions. These component units include Caroline Islands Air, College of Micronesia, Coconut Development Authority, Development Bank, MiCare Health Insurance Plan, Petroleum Corporation, Social Security Administration, Telecommunications Corporation and National Fisheries Corporation.

Pohnpei State Government and all its component units that include Pohnpei Port Authority, Pohnpei State Housing Authority and Pohnpei Utilities Corporation received unqualified audit opinions.

Chuuk State Government received a qualified audit opinion due to its failure to record a liability for land leases and related claims payable in the governmental activities for the fiscal year ended September 30, 2012. Chuuk State's component units that include Chuuk Public Utilities Corporation, Chuuk State Health Care Plan received unqualified audit opinions.

Yap State Government received both an adverse opinion and an unqualified opinion in its financial statements. The adverse opinion was due to the un-availability of two component units' financial statements. At the same time, the unqualified opinion was issued since the auditor found no material weaknesses in the financial statements. Yap State's component units including Diving Seagull Inc., Yap State Public Service Corporation and Yap Visitor's Bureau received unqualified audit opinions.

Kosrae State Government, Kosrae Port Authority, and Kosrae Utilities Authority received unqualified audit opinions.

(Refer to Appendix IV for the single audit reports for FY 2012 completed in FY 2013)

³ Entities which are legally separate from the National or State Government, but are financially accountable to the National or State Government, or whose relationship with the National or State Government is such that exclusion would cause the National or State Government's basic financial statements to be misleading or incomplete.

Compliance Investigation Division (CID) FY 2013 Accomplishments

The below tables encompass how CID goes about when complaints received through the hotline, email, referral by Audit Division, or by letters reach our office. Active cases are cases that are still undergoing investigation, while closed cases are cases that CID receives, reviews, and has concluded with an Advisory Management. In other terms, it is dealt administratively. When cases are being dealt with and refer to Department of Justice, it means that the inquiry has been done and is going to DOJ for legal action. Cases that are referred back to audit are complaints that are received and it needs an audit, not investigation.

Cases

Cases' details cannot be displayed due to ongoing cases' procedures; therefore, case numbers can only be displayed along with allegation, source, and status. The following are the cases received, referred and closed during fiscal year 2013.

Complaints received in FY 2013

Case No.	Allegations	Source	status
CID- 12- 007	Misuse of funds	Municipal Councilmen	Active
CID- 12- 008	Payroll	Audit referral	Active
CID- 12- 009	Tax Evasion & Payroll	Audit Referral	Active
CID- 12- 010	Missing equipment	Anonymous	Active
CID- 13- 002	Misuse of assets	Anonymous	Active
CID- 13- 003	Tax evasion	Concerned Citizen	Active
CID- 13-005	Payroll	Anonymous	Active

Referred and closed cases in FY 2013

Case no.	Allegation	Source	Status
CID- 12- 001	FSM Contractor	Anonymous	Refer to audit
CID- 12- 005	State Agency	Audit referral	Refer to Dept. of Justice
CID- 13-001	Misuse of account	A State Agency	Closed
CID- 13- 004	Payroll	Concerned Citizen	Closed

CID Hotline

The ONPA has established a Hotline for use by concerned citizens to report possible misconduct and abuse in the government entities. Information from the public is a valuable part of the audit process and helps ONPA focus its resources.

The hotline number is 691-320-6768, and is available twenty four hours a day, every day of the week, by an answering machine. All calls to the hotline remain absolutely confidential. In addition, ONPA also offers an online complaint form and can be located at <http://www.fsmopa.fm/hotline/complaint.htm>.

Trainings • Conferences • Workshops


The staff attended ten types of audit and investigative trainings, conferences and workshops in order to continuously enhance their skills and competencies. These trainings, conferences and workshops were funded through different sources, except for the CGAP In-House Training and Strategic Plan In-House Workshop. Some training fund sources include: PASAI, DOI/OIG, ONPA Budget, Road Map and technical grants.

The trainings, conferences and workshop include PASAI audit trainings in Fiji, USDA Graduate School audit training in Texas, IDI/ PASAI 3i strategic management workshop (SMOG⁴) in Fiji, internet-based INTOSAI IDI risk based approach to Financial Auditing, Watson training in Pohnpei, DOI/IG audit training in Pohnpei, APIPA sponsored audit training in Saipan, Investigator's (ACFE) training and conference in Las Vegas, CGAP Certification in-house Training and the ONPA Strategic Planning in-house workshop.

(Refer to Appendix V for more information on the trainings/conferences/workshops)

Transparency Continues

Transparency means providing citizens with information about their government's operations. It also promotes accountability and it should be open and readily available to the public's use. Our strategic goal to improve transparency in the government is promoted through this required annual report, the use of the ONPA website at www.fsmopa.fm, and the local media, Kaselehlie Press, at www.kpress.info. Some of our digital audit reports can be located on PASAI's website at www.pasai.org. Hard copies of our audit reports are located in our office lobby in Palikir.

 A tool being used in tracking visitors of ONPA website is a Google service called Google Analytics. It is a web-based application that generates detailed statistics about a website's traffic and traffic sources and measures conversions and sales. Google Analytics for ONPA website provides insights on how visitors use the website,

⁴ SMOG stands for Strategic Management Operational Guidelines. The basic objective of the workshop was to raise awareness among the top management in public auditing regarding the value of strategic management and the guidelines in its preparation and implementation.

how they arrived on the website, how long they stayed and how often they visit each page. The total number of visits in fiscal year 2012 was 4,874 visitors, whereas; in fiscal year 2013 as of August 30, 2013, it was 4,284 visitors.

Other Matters of Interest

PASAI Congress

PASAI Congress is held every year and attended by leaders of international organization of Supreme Audit Institutions (INTOSAI), regional SAI heads, other international bodies beyond the region. Donors and stakeholders also participate and are responsible for endorsing PASAI's long term strategies and direction (PASAI, October 2012).

The purpose of this annual meeting is for the SAIs to receive recognition and support from the international audit community; for the SAIs to talk about their upcoming events and goals and for the heads of SAIs to report on their progress in their respective SAIs (PASAI, October 2012).


During this fiscal year, 15th and 16th PASAI congress took place in two different locations. The 15th Congress was held in Noumea, New Caledonia on October 2-5, 2012 and the 16th Congress was held in Guam on September 10-13, 2013. Elina Paul participated in the 15th Congress held in New Caledonia, due to Haser Hainrick's unexpected family emergency that he needed to attend (ONPA, November 2012). Haser Hainrick, Erwihne David and Evelyn Paul participated in the 16th Congress held in Guam.


New Hires • Promotions • Departures

New Hires





Evangeline Hilario Eko from Pollap Island in the state of Chuuk filled a vacant Auditor position at the Office of the National Public Auditor Chuuk field office on February 25, 2013. Evangeline graduated from Chaminade University in Hawaii in 2010 with a Bachelor of Arts degree in Business Administration. Prior to landing an auditor's position at the ONPA office, Evangeline had various working experiences. Her most recent work was with Chuuk State Supreme court as an Assistant Clerk. Prior to that, she worked as a Tax Auditor for the Tax & revenue Division, Chuuk State Department of Administrative Services. While Evangeline was in Hawaii, she worked at a market research company called QMark Research as a Telephone Interviewer and an Office Clerk at the Pacific Guardian Center, with Ampco. She also worked at the American Savings Bank in Hawaii doing data entry in the General Ledger Reconciliation Department.

	<p>Rosadelima Alfons, a citizen of Kitti, Pohnpei filled an Auditor position at the ONPA on August 1, 2013. Rose graduated from the University of the South Pacific, Fiji in 2012 with a Bachelor of Commerce in Information System, Management and Public Administration. She also earned an Associate of Science degree in Computer Information System at the College of Micronesia, FSM in 2007. Prior to her landing a job at the ONPA, Rose was interned at The International Organization for Migration-Migrant Resource Center in Pohnpei. In 2010, she worked for the Pohnpei State Census Report.</p>
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	<p>Erick Paul, from Nett, Pohnpei filled-up an Auditor position at the ONPA on July 18, 2013. Erick graduated from Chaminade University of Honolulu, Hawaii in May, 2013. He attended High School of the Pacific in Kona, Big Island Hawaii and graduated in May, 2008. While still enrolled in school, Eric volunteered in the school as an Income Tax Assistant in 2010-2011 and Free Application for Federal Student Aid in 2011-2012.</p>
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Promotions

	<p>Manuel San Jose Jr. (Manny), former Audit Supervisor assumed the duties of Audit Manager early in 2013. Manny has five certifications in relation to accounting and auditing – CPA, CGAP, CIA, CISA and CRMA. He previously worked at the National OPA from 2007 to 2010 and was hired again in 2011 as an Audit Supervisor. His new position as an Audit Manager gave him the responsibility to assist the National Public Auditor in the overall administration, supervision and management of the Audit Division within the main office in Palikir and at the field office in Chuuk. He also assists the National Pubic Auditor in developing and delivering capacity building plans and programs, including training and workshops within and outside of the country. He carries out specific tasks and performs on behalf of the National Public Auditor when and where appropriate as may be determined by the NPA.</p>
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	<p>Erwihne David was promoted to Senior Auditor in April, 2013. Erwihne possesses wider work experiences earned from both public and private sectors. Prior to her joining the National OPA, she worked as a Tax Auditor at the Office of Revenue and Taxation, Pohnpei State. She had also worked for Best Buy Incorporated as an Assistant Manager, where she maintains the company books, reconciles account receivables, payables, and bank accounts for the company. Six years before then, she was employed at the Office of the National Public Auditor as an Auditor III.</p>
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	<p>Evelyn Paul also assumed a Senior Auditor position in April, 2013. Evelyn graduated from Chaminade University, Hawaii with a Bachelor of Arts in Business Administration. She has an extensive experience in supervision. Before ONPA hired her in May, 2008, Evelyn worked as a Loan Officer at the FSM Development Bank. Prior to that, she was the Deputy Director of Chuuk State Department of Administrative Services (2004-2005), Acting Director of Chuuk State Finance & Treasury (2003-2004), and Director of Chuuk State Budget (2001-2003). She also once served as the Acting Governor of Chuuk State Government and had represented Chuuk State to the various FSM JEMCO meetings. She currently serves on the CFCC Board of Directors.</p>
	<p>Julinida Weital assumed the duties of Senior Auditor in April, 2013. Julinida graduated from the University of Guam with a Bachelor of Business Administration in Accounting. She also has a third year certificate program in accounting from College of Micronesia. Prior to her current position, Julinida was an Auditor II, where she is mostly in charge of audit assignments and her responsibilities were to plan and conduct an audit from beginning to end. In late 90s and early 2000, Julinida was employed at the Division of National Treasury, FSM Department of Finance and Administration as a Computer Operator. She later took over the Payroll Officer position before moving to ONPA. Her lengthy service at the National OPA enabled her to function as a Senior Auditor. She was once selected by PASAI, a regional audit organization in the Pacific, to conduct one of the trainings for auditors in the region.</p>
	<p>Elina Paul recently assumed a Senior Auditor in 2013. Elina graduated from the University of Phoenix, Arizona in 2008 with a Masters in Business Administration. She earned a Bachelor of Science degree in Business Management prior to her MBA. She first joined the National OPA in 2009 as an Auditor I. Prior to her employment at the National OPA, Elina worked at the CTSI Logistics Inc. in Torrance, California as an Air & Ocean Import Coordinator. She was once selected by PASAI, a regional audit organization in the Pacific, to conduct one of the trainings for auditors in the region.</p>
	<p>Mermina Mongkeya was promoted from Auditor II to Auditor III in April, 2013. Mermina graduated from Park University in Missouri, USA in May, 2000 with a Bachelor in Business Administration & Management. She previously worked for the FSM Banking & Insurance Board as a Financial Analyst. She had also worked for the Kosrae State Public Auditor as a staff auditor for seven years prior to moving to Pohnpei. Prior to that she worked with Gear-Up Program, COM-Kosrae Campus and she also instructed lessons for the 21st Century Program at Lelu Elementary School in Kosrae. While Mermina was still studying at Parkville University for her four year degree, she worked as a Customer Service Representative and a Student Assistant in Kansas City, Missouri.</p>



Keller Phillip was promoted to Auditor III in April, 2013 where his responsibilities included planning and conducting audits or portions of audits of government agencies. From 1988 to 2001, Keller worked as a Tax Technician at the Division of Revenue and Taxation, Pohnpei State Government. Keller had participated in numerous trainings in relation to auditing and had enhanced his auditing capacity through such trainings. He had been with the National OPA for over 10 years and possesses adequate knowledge in carrying out audit assignments.



Aisi Mori Peter assumed the responsibilities of Auditor III in April, 2013. Aisi graduated from University of Guam in 1999 with a Bachelor in Business Administration. Before joining the National OPA, Aisi worked at the FSM Department of Finance & Administration as an Accountant and was eventually promoted to Cash Reconciliation Manager. She had also worked for the US Peace Corps Office in Pohnpei as a Language and Cross Culture Facilitator. Her work experiences also include employment at Bank of FSM as Head Teller and Operations Officer at Bank of Guam located in Guam. While pursuing her undergraduate degree, Aisi worked as a Clerk at Stay Well Insurance and a Technical Aide at the English Department, University of Guam.

DEPARTURE



Robert (Bob) Hayes—Bob departed the National OPA in April, 2013 after his contract ended. He had played a major role in carrying out audit assignments during his two years with the National OPA. With Manny, he conducted most of the six month in-house training that broadens the staff's knowledge in government operations and auditing. Bob moved back to his home state in South Carolina, USA.

Appendices

Appendix I—National Public Auditor’s Powers, Duties and Responsibilities

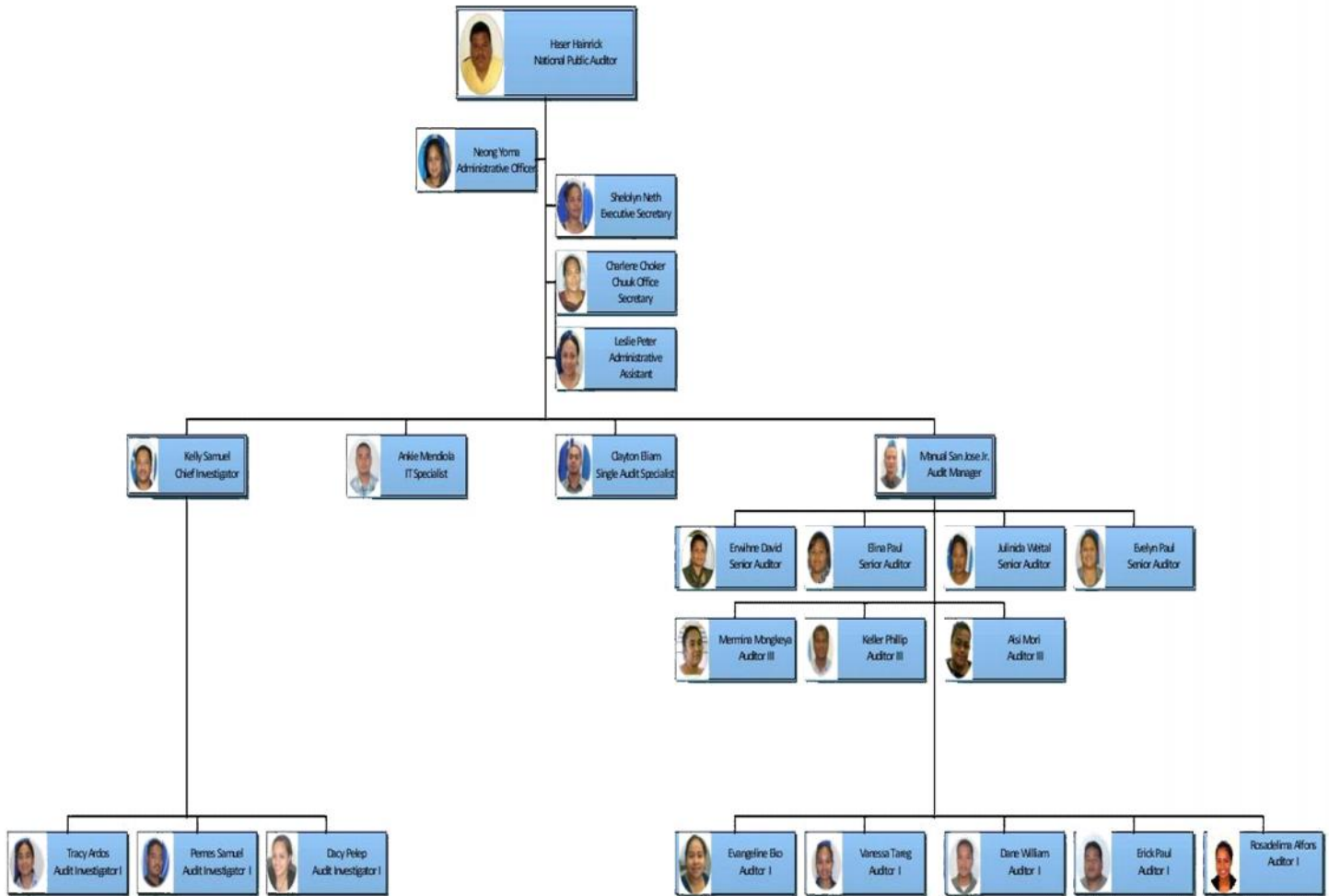
Powers: The Public Auditor has both general and specific audit powers for the National Government, including branches, departments, commissions, and bureaus and contractors performing public works. The Public Auditor has been granted the power of subpoena in order to fulfill his duties and responsibilities.

Duties and Responsibilities: The duties and responsibilities of the Public Auditor, as prescribed by the Congress, shall require inspections, audits, recommendations, and annual reporting on the Public Auditor’s progress and performance of these responsibilities. The specific responsibilities, which are designed to promote integrity and improve performance in government operations, are:

1. Inspect and audit transactions, accounts, books, and other financial records of every branch, department, office, agency, board, commission, bureau, and statutory authority of the National Government and of other public legal entities, including, but not limited to, States, subdivisions thereof, and nonprofit organizations receiving public funds from the National Government,
2. Inspect and audit transactions, accounts, books, and other financial records associated with any project, program, and activity receiving funds in whole or in part from public funds of the National Government,
3. Perform audits as otherwise specifically required by the statutes,
4. Have the discretion to perform audits, or assist in the performance of audits, upon request by the states,
5. Have the exclusive audit jurisdiction over public funds of the National Government of the Federated States of Micronesia, but shall have the authority to contract for independent auditing services to be performed under his supervision in instances where specialized expertise is required, or where auditing requirements are beyond the capacity of the Public Auditor’s staff and separate funding is available, (how about the authority to audit Compact Funds)
6. File a report at least once a year with the Congress, and other reports as deemed necessary by the Public Auditor and all reports of the Public Auditor shall be made available to the public,
7. Submit recommendations with audit reports which shall be confined to matters within the jurisdiction of the Public Auditor, including compliance or noncompliance with laws governing the expenditures of public moneys, and the need for amendments or new laws to secure the efficient expenditure of public funds,
8. Keeps a complete and accurate record or file of audit reports, inspections, investigations, releases, audit work papers, and other materials pertaining to the work of the office of the Public Auditor.

Appendix II—Organizational Chart

Office of the National Public Auditor Federated States of Micronesia



Approved By: _____

Date: 9.30.2013

Appendix III—Audit and Compliance Investigation Division Operations

Audit Division

The types of audits and applicable audit standards shall be as follows:

1. *Financial:* These audits determine whether the financial statements of an audit entity present fairly the financial position and results of financial operation in accordance with generally accepted accounting principles and whether the entity has complied with the laws and regulations that may have a material effect upon the financial statements.
2. *Economy and efficiency:* This type of audit determines whether an entity is managing and utilizing its resources economically and efficiently, the cause of inefficiencies or uneconomical practices, and whether the entity has complied with laws and regulations concerning economy and efficiency.
3. *Program results:* This type of audit determines whether the desired results or benefits established by the Congress, or other authorizing body, are being achieved and whether the program administrator has considered alternatives that might yield desired results at a lower cost.

Any given audit or review may include one or more objectives in the reasonable exercise of the Public Auditor's discretion. The Public Auditor shall perform audits in accordance with generally accepted government auditing standards (GAGAS) and the quality standards for inspections issued by the U.S. President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency.

Quality Standards for Inspections

Issued by the President's Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency, the Quality Standards for Inspections were published in 1993 and revised in 2012. The 14 standards for inspection work are listed below. The complete guidelines for inspections are located on the internet at <http://www.ignet.gov/pande/standards/iestds12.pdf>.

- ❖ *Competency:* The staff assigned to perform inspection work should collectively possess adequate professional competency for the tasks required.
- ❖ *Independence:* In all matters relating to inspection work, the inspection organization and each individual inspector should be free both in fact and appearance from personal, external, and organizational impairments to independence.
- ❖ *Professional Judgment:* Due professional judgment should be used in planning and performing inspections and in reporting the results.
- ❖ *Quality Control:* Each OIG organization that conducts inspections should have appropriate internal quality controls for that work.
- ❖ *Planning:* Inspections are to be adequately planned.
- ❖ *Data Collection and Analysis:* The collection of information and data will be focused on the organization, program, activity, or function being inspected, consistent with the inspection objectives, and will be sufficient to provide a reasonable basis for reaching conclusions.
- ❖ *Evidence:* Evidence supporting inspection findings, conclusions, and recommendations should be sufficient, competent, and relevant and should lead a reasonable person to sustain the findings, conclusions, and recommendations.

- ❖ *Records Maintenance:* All relevant documentation generated, obtained, and used in supporting inspection findings, conclusions, and recommendations should be retained for an appropriate period of time.
- ❖ *Timeliness:* Inspections should strive to deliver significant information to appropriate management officials and other customers in a timely manner.
- ❖ *Fraud, Other Illegal Acts, and Abuse:* In conducting inspection work, inspectors should be alert to possible fraud, other illegal acts, and abuse and should appropriately follow up on any indicators of such activity and promptly present associated information to their supervisors for review and possible referral to the appropriate investigative office.
- ❖ *Reporting:* Inspection reporting shall present factual data accurately, fairly, and objectively and present findings, conclusions, and recommendations in a persuasive manner.
- ❖ *Follow-up:* Appropriate follow-up will be performed to assure that any inspection recommendations made to Department/Agency officials are adequately considered and appropriately addressed.
- ❖ *Performance Measurement:* Mechanisms should be in place to measure the effectiveness of inspection work.
- ❖ *Working Relationships and Communication:* Each inspection organization should seek to facilitate positive working relationships and effective communication with those entities being inspected and other interested parties.

Compliance Investigation Division

CID has adopted the Quality Standards for Investigation, prepared by the U.S. President's Council on Integrity and Efficiency Executive Council on Integrity and Efficiency. These are the standards that have been set for all U.S. Offices of Inspector General and provide a sound benchmark by which we can set our own standards. The General and Qualitative Standards are listed below. The complete guidelines for investigations are located on the internet at <http://www.ignet.gov/pande/standards/invstds2011.pdf>.

General Standards: General Standards apply to investigators and the organizational environment in which they perform. They address the "need for" criteria. The three general standards address qualifications, independence, and due professional care.

1. **Qualifications** - Individuals assigned to conduct the investigative activities must collectively possess professional proficiency for the tasks required.
2. **Independence** - In all matters relating to investigative work, the investigative organization must be free, both in fact and appearance, from impairments to independence; must be organizationally independent; and must maintain an independent attitude.
3. **Due Professional Care** - Use due professional care in conducting investigations and in preparing related reports.

Qualitative Standards: Qualitative standards apply to the management functions and processes investigators perform. They address the "how to" criteria. In an investigation program, there are four critical standards that must be addressed if the effort is to be successful. These standards are: Planning, Execution, Reporting, and Information Management.

- ❖ *Planning* - Establish organizational and case specific priorities and develop objectives to ensure that individual case tasks are performed efficiently and effectively.

- ❖ *Execution* - Conduct investigations in a timely, efficient, thorough, and legal manner.
- ❖ *Reporting* - Reports (oral and written) must thoroughly address all relevant aspects of the investigation and be accurate, clear, complete, concise, logically organized, timely and objective.
- ❖ *Information Management* - Store investigative data in a manner allowing effective retrieval, referencing, and analysis.

Appendix IV—Single Audits FY 2012

The following are the detailed results for the FY12 Single Audits conducted during fiscal year 2013, and they are taken directly out of reports submitted by Deloitte & Touche.

FSM National Government

Audit Opinion: The FSM National Government received an UNQUALIFIED opinion on their FY12 Single Audit Report.

Financial Condition & Operations: The National Government revenues from governmental activities, including local revenues, gain on investments, Compact and other grants funding totaled \$122,471,737, an increase compared to FY11 (\$102,617,053). As for the total expenses for governmental activities, the amount also increased from \$51,997,110 in FY11 to \$61,782,904 in FY12. This resulted in a 22% increase in total net assets, from \$218,340,487 in FY11 to \$279,824,588 in FY12. The increase is due primarily to the receipt of Compact of Infrastructure Sector grants pertaining to infrastructure and construction in progress for airport improvement and infrastructure projects and increase in the fishing access collections.

Caroline Islands Air (CIA)

Audit Opinion: Caroline Islands Air received an UNQUALIFIED opinion on their FY12 Single Audit Report.

Financial Condition & Operations: For the current year, CIA's operations include regular/charter flight services and cargo. Revenue sources for the fiscal year 2012 are from \$185,547 of passenger airfare, \$123,970 of charter services, \$49,778 of baggage fees, \$18,610 of freight, \$2,145 of sales of drums and \$22,242 of non-operating revenues. A decrease in total assets and an increase in liabilities resulted in a \$49,272 decrease in total net assets, from \$99,865 in fiscal year 2011 to \$50,593 in fiscal year 2012. CIA continued to face challenges during fiscal year 2012. These operating issues are the continued revenue shortfalls to adequately cover operating costs and fuel for the airplanes, and plan of actions are focused toward improving these operating issues.

College of Micronesia-FSM (COM-FSM)

Audit Opinion: College of Micronesia-FSM received an UNQUALIFIED opinion on their FY12 Single Audit Report.

Financial Condition & Operations: A comparison of the statement of net assets for fiscal year 2012 with prior year indicates a slight decline in net assets, from \$22,895,111 in FY11 to \$22,753,330 million in FY12. Although the gross operating revenue for fiscal year 2012 is basically at the same level with fiscal year 2011, there was a slight increase in operating expenses which led to an operating loss of \$550,880 in FY12. However, the results of operations provided a positive fund balance change in net assets by approximately \$418,000 before the provision for bad debts.

FSM Coconut Development Authority (CDA)

Audit Opinion: FSM Coconut Development Authority received an UNQUALIFIED opinion on their FY12 Single Audit Report.

Financial Condition & Operations: Operations of CDA are funded by annual appropriations from the FSM Congress. A total of \$100,00 was received from the National Government in fiscal year 2012 as a copra subsidy appropriation. For the fiscal year ended September 30, 2012, CDA has total assets of \$358,642, a decrease of \$20,094 compared to FY11 assets of \$378,736. Gross profit amounted to \$48,581, while total operating expenses were \$248,109, resulting in a net loss from operations of \$199,591. The net loss was funded by operating grants and subsidies received from the National Government of \$201,608. CDA has also experienced a drastic decline in the production of copra over the years. The total production of copra in s/tons for fiscal year 2012 was 156 s/tons, a decrease from fiscal year 2011's production of 254 s/tons.

FSM Development Bank

Audit Opinion: FSM Development Bank received an UNQUALIFIED opinion on their FY12 Single Audit Report.

Financial Condition & Operations: Total assets for the Bank increased from \$41,029,206 in FY11 to \$42,319,775 in FY12. The increase is due mainly to an increase in the value of the investment portfolio and increase in equity investments in Bank of FSM. Liabilities decreased as the Bank paid down its borrowed funds and accounts payable. During the fiscal year 2012, the Bank approved 262 loans for approximately \$7,600,000 compared to fiscal year 2011's approval of approximately \$5,800,000 for 208 loans. Earnings in 2012 were positive at \$1,854,763, a 48% increase over fiscal year 2011's earnings of \$1,253,551.

FSM MiCare Health Insurance Plan

Audit Opinion: FSM MiCare Plan received an UNQUALIFIED opinion on their FY12 Single Audit Report.

Financial Condition & Operations: MiCare's total net asset for the fiscal year 2012 was \$357,600, a decrease from fiscal year 2011's total net assets of \$703,225. Total liabilities for medical claims increased by \$405,641, from \$5,445,591 in 2011 to \$5,470,437 in 2012. MiCare also saw an increase of \$24,846 in their operating revenues, and a \$258,164 increase in total operating expenses. Total non-operating revenues decreased by \$9,334 or 7%, from \$128,778 in 2011 to \$119,444 in 2012.

FSM Petroleum Corporation (PetroCorp)

Audit Opinion: FSM PetroCorp received an UNQUALIFIED opinion on their FY12 Single Audit Report.

Financial Condition & Operations: Gross revenues for CY12 were \$61,575,499, reflecting a small increase over the prior year. Revenue growth is attributed to increased prices as a result of cost import costs. Gross revenue contributions by State were Kosrae 10%, Yap 15%, Chuuk 26% and Pohnpei 49%, with a product mix of automotive diesel oil 53%, unleaded petrol (gasoline) 35%, home kerosene and Jet A1 of 10%, and other revenues of 2%. There is a noticeable improvement in the condition and asset value of the oil distribution infrastructure as well as the levels of strategic oil inventory that maintains the current energy security of the nation and the current policies have

also positively impacted our debt-to-equity ratio, decreasing from its high of 75% in 2009 to the targeted 21% in 2012.

FSM Social Security Administration

Audit Opinion: FSM Social Security Administration received an UNQUALIFIED opinion on their FY12 Single Audit Report.

Financial Condition & Operations: Contributions collected during fiscal 2012 was \$16,371,874, a 1.33% decrease from last year's amount of \$16,593,155. The total benefit payments to members or their beneficiaries increased by 2.05% from \$17,620,245 in 2011 to \$17,982,093 in 2012. FSMSSA also saw an increase of 5.64% in their investment portfolio, from \$35,220,871 in 2011 to \$37,206,732 in 2012. This positive return on the investment portfolio resulted with a 6.01% increase in FSMSSA's net position, from \$40,409,369 in December 31, 2011 to \$42,839,536 in December 31, 2012. Other highlights for FSMSSA's FY12 Single Audit report include a budget surplus of 7% due to monitoring of expenses, collection of \$896,000 from delinquent accounts, and supplement funding in the amount of \$1,000,000 received from the FSM National Government.

FSM Telecommunications Corporation (FSMTC)

Audit Opinion: FSM Telecom received an UNQUALIFIED opinion on their FY12 Single Audit Report.

Financial Condition & Operations: The total net assets of FSMTC decreased from \$25,623,623 in 2011 to \$23,945,749 in fiscal year 2012. This decrease is due primarily to an increase in depreciation and withdrawals from TCD's and investments in securities. Calls made to and from outside of the FSM and within the FSM account for 20.35% of the operating revenues as compared to last year's 21.90%. A decrease in Call revenue is caused by the increase in internet and mobile service usage. During FY12, FSMTC realized an increase in internet service revenue of \$531,256 and an increase of \$231,668 in mobile service revenues. Although there was an increase of \$417,664 in operating revenues in FY12, operating expenses also increased by \$176,845, thus resulting in a net operating loss of \$807,488, as compared to FY11's net operating loss of \$1,048,307.

National Fisheries Corporation (NFC)

Audit Opinion: National Fisheries Corporation received an UNQUALIFIED opinion on their FY12 Single Audit Report.

Financial Condition & Operations: 2012 revenue sources of NFC operations are \$248,333 of management fees from Kasar Fishing Corporation Taiyo Micronesia Corporation. During this year, NFC also generated \$17,976 from other operating income. Company assets of \$471,521 comprised \$461,612 or 98% of current assets and \$9,909 or 2% of capital assets. The major portion of the \$461,612 current assets is cash, which accounts for 15% or \$70,733 and investment accounts for 84% or \$389,363. The remaining is accounts receivable of \$1,516. Total liabilities amount to approximately \$3,696,000, which consists of a \$3,600,000 loan from the National Government, and other accounts payable and accrued liabilities of approximately \$96,000.

Pohnpei State Government

Audit Opinion: Pohnpei State Government received an UNQUALIFIED opinion on their FY12 Single Audit Report.

Financial Condition and Operations: The total net assets for Pohnpei State Government in fiscal year 2012 totaled \$40,468,564, an increase of \$486,011 from fiscal year 2011. Compact II related grants

were the major source of Pohnpei State's revenues, amounting to \$18,326,362 (or 56%), while \$9,717,667 (or 32%) came from taxes and licenses. Total revenues reported are \$35,789,452 against total expenditures of \$34,328,514. Education and Health Services represented 33% and 24%, respectively, of the State's total expenses.

Pohnpei Port Authority (PPA)

Audit Opinion: Pohnpei Port Authority received an UNQUALIFIED opinion on their FY12 Single Audit Report.

Financial Condition & Operations: Operating revenues for fiscal year 2012 increased by \$114,825 or 6.2% from the prior year, while the operating expenses were 2% or \$42,019 lower compared to fiscal year 2011. Current assets increased by 4.18% due largely to the increase in bank balance. Liabilities decreased by 11%, from \$303,896 in 2011 to \$270,722 in 2012. Overall, net assets increased by \$234,439.

Pohnpei State Housing Authority (PSHA)

Audit Opinion: Pohnpei State Housing Authority received an UNQUALIFIED opinion on their FY12 Single Audit Report.

Financial Condition & Operations: For fiscal year ended September 30, 2012, PSHA's total operating revenues were \$219,506 compared to the prior year amount of \$217,941. Total expenses decreased by \$15,647 or 10% from prior year. PSHA collected an aggregate amount of \$187,759 representing the actual interest and fees paid by customers on loans. Total net assets increased by \$179,914 or 9% during fiscal year 2012 compared to prior year due to higher loan revenue. In addition, other major account changes compared to prior year were as follows: Current assets increased by \$155,943 or 6% due to higher loan availed by customers, and capital assets decreased by \$15,183 or 12% due mainly to depreciation.

Pohnpei Utilities Corporation (PUC)

Audit Opinion: PUC received an UNQUALIFIED opinion on their FY12 Single Audit Report.

Financial Condition and Operations: Being the sole provider of power, water and sewer services for the island of Pohnpei, PUC has seen the demand for these services increase in the past few years. The total number of households provided with power service from PUC had a slight increase from 6,488 in 2011 to 6,684 in 2012. This resulted in total power revenue of \$14,210,389 and \$12,707,857 for PUC in 2012 and 2011, respectively. For the water services, PUC produced 758 million and 709 million gallons and sold 607 million and 625 million gallons to customers in 2012 and 2011, respectively.

PUC saw a decrease in their total net assets from \$19,742,167 in FY11 to \$18,591,478 in FY12. This resulted in a loss of \$1,150,689 for FY12, an improvement compared to the FY11 loss of \$1,886,323. The overall changes in the statements of net assets components from September 30, 2011 to 2012 include a slight decrease in utility plant of \$59,354, a decrease of \$346,125 in current assets and an increase in current and long term liabilities of \$939,053.

Chuuk State Government

Audit Opinion: Chuuk State Government received a QUALIFIED opinion on their FY12 Single Audit Report.

Financial Condition and Operations: The QUALIFIED opinion given by Deloitte was based on the State's inability to record a liability for land leases and related claims payable in the governmental activities and the General Fund.

For the fiscal year ended September 30, 2012, Chuuk State's total net assets increased from \$38,307,518 in the prior year to \$39,103,460. This increase was primarily attributable to reduction of prior year liabilities, resulting in revenues exceeding expenditures. Total revenues for the State totaled \$35,043,463, a decrease by \$1,900,479 (or 5.14%) from fiscal year 2011. Total expenses also decreased in fiscal year 2012, from \$38,945,814 in fiscal year 2011 to \$35,652,617. At the end of fiscal 2012, Chuuk State's assets exceeded liabilities by \$39,103,460. However, all these net assets are restricted as to the purposes they can be used for or are invested in capital assets.

Chuuk Housing Authority

**Incorporated into Chuuk State Financials*

Chuuk Public Utilities Corporation (CPUC)

Audit Opinion: Chuuk Public Utilities Corporation received an UNQUALIFIED opinion on their FY12 Single Audit Report.

Financial Condition & Operations: Total assets for CPUC increased from \$3,199,095 in 2011 to \$5,459,973 in 2012 due to the acquisition of two generators with 1.2 mega watt (MW) each and certain other assets to improve power, water and sewer service. Deficiency decreased from \$1,096,927 in 2010 to \$682,221 in 2011 and further reduced in 2012 to \$275,656. All this arose from the gain in improvement of operations and from capital contributions. Revenues in 2012 increased by 80% or \$2,374,282, while expenses also increased by 41% or \$1,651,707. This was due to an increase in fuel used to deliver 24-hour power service. Operating loss improved from \$1,041,268 in 2011 to \$318,693 in 2012, and loss before capital contributions also improved by \$506,211.

Chuuk State Health Care Plan (CSHCP)

Audit Opinion: Chuuk State Health Care Plan received an UNQUALIFIED opinion on their FY12 Single Audit Report.

Financial Condition & Operations: CSHCP's total net assets increased from \$1,106,834 in fiscal year 2011 to \$1,212,755 in fiscal year 2012. Although the total net revenue decreased from \$446,150 in fiscal year 2011 to \$295,381 in fiscal year 2012, Investment Income and Subsidies from the FSM National Government increased by \$25,081 and \$11,346, respectively. Medical claim expenses also increased by 9%, from \$739,662 in fiscal year 2011 to \$806,379 in fiscal year 2012. This increase in medical claims expense reflects the results from the greater plan utilization by enrollees and higher claims expense per patient. During fiscal year 2012, CSHCP had a net income of \$97,649 compared to the prior year's net income of \$232,180.

Yap State Government

Audit Opinion: Yap State Government received an ADVERSE and UNQUALIFIED opinion on their FY12 Single Audit Report.

Financial Condition and Operations: Total net assets for FY12 increased by \$740,440, from \$85,115,174 in the prior year to \$85,855,614. Revenues also increased by approximately \$9,900,000, and total expenditures by approximately \$2,100,000. The significant increase in

revenue was due to unrealized gains of \$8,841,556 in the fair value of investments: \$5,205,303 of which was attributed to the Yap Trust Fund and \$3,636,253 were investment gains in other invested funds. Actual expenditures were \$67,822 more than the final budgeted amount for Yap State. At the end of fiscal year 2012 assets exceeded liabilities by \$85,855,614.

Diving Seagull, Inc.

Audit Opinion: Diving Seagull received an UNQUALIFIED opinion on their FY12 Single Audit Report.

Financial Condition & Operations: In fiscal year 2012, the total assets for DSI increased 41% from \$11,532,243 to \$16,311,013. The increase is due to higher fish prices. F/V Yap Seagull, the new vessel which began fishing in 2010, contributed to the 35% increase in operating revenue. This led to an 116% increase in current assets comprising primarily of cash and equivalents and broker receivables. Cost of sales, however, only increased by \$446,773, indicating that the same number of fishing trips occurred during fiscal year 2012 and 2011. Net income from operations increased from \$2,042,075 in 2011 to \$5,938,913 in 2012.

Yap State Public Services Corporation

Audit Opinion: Yap State Public Services Corporation received an UNQUALIFIED opinion on their FY12 Single Audit Report.

Financial Condition & Operations: The operating loss for fiscal year 2012 of \$725,367 represents an increase of 48% over fiscal year 2011, while revenue of \$5,651,175 represents an increase of 10% over fiscal year 2011. Revenues received from the water service decreased from \$559,252 in 2011 to \$496,224 in 2012, and the total revenues received from providing electricity services was \$5,651,175, which is also a decrease from the prior year amount of \$5,123,712.

Yap Visitors Bureau

Audit Opinion: Yap Visitors Bureau received an UNQUALIFIED opinion on their FY12 Single Audit Report.

Financial Condition & Operations: A recent amendment to FSM Law No. 827, which required that all payments and record keeping to take place at Yap State Finance instead of the YVB office, created many additional layers and delays with problems such as the tracking of records and files. For the year ended September 30, 2012, total assets for YVB increased from \$183,330 in the prior year to \$194,794. Total non-operating revenues amount to \$306,652, while expenses decreased from \$306,490 in 2011 to \$304,537 in 2012.

Kosrae State Government

Audit Opinion: Kosrae State Government received a UNQUALIFIED OPINION on their F12 Single Audit Report.

Financial Condition & Operations: Kosrae State's total net assets increased from \$19,380,670 in the prior year to \$19,940,272 in fiscal year 2012. The increase is due mainly to positive results in the total amount of revenues for the year which registered an increase of \$767,768 as compared to the prior year particularly the Compact Trust. The State also had an increase in the total fund balance, from \$1,879,094 in fiscal year 2011 to \$1,913,172 in fiscal year 2012.

Total expenses decreased from \$11,147,222 in fiscal year 2011 to \$11,068,998 in fiscal year 2012. The major source of revenue for Kosrae State came from Operating Grants and Contributions,

which increased from \$7,807,857 in fiscal year 2011 to \$8,313,506 in fiscal year 2012. As for the State's expenditures, Education and Health Services represented 35% and 21% of the total expenses, respectively.

Kosrae Port Authority (KPA)

Audit Opinion: Kosrae Port Authority received an UNQUALIFIED opinion on their FY12 Single Audit Report.

Financial Condition & Operations: The total assets for KPA in fiscal year 2012 was \$16,976,754, a decrease from prior year's amount of \$17,849,717, which led to a decrease in the total net assets at the end of the year. Current liabilities comprised of accounts payable, accrued liabilities and others. Operating revenues are mainly from airport landing fee, sea port charges and departure fees. Fiscal year 2012 revenues registered a decrease of 13% compared to fiscal year 2011. However, a \$17,038 recovery of bad debts for the year was recognized. Depreciation expenses comprised of 82% of total operating expenses while salaries and benefits registered 10%. Other expenses such as utilities, fuel, communications, travel and others totaling \$80,546 consisted of 8% of the total operating expenses

Kosrae Utilities Authority (KUA)

Audit Opinion: Kosrae Utilities Authority received an UNQUALIFIED opinion on their FY12 Single Audit Report.

Financial Condition & Operations: Operating revenues derived from electricity sales are higher by 7% over the prior year. While revenues from residential and government accounts decreased, industrial sales, commercial sales and fuel adjustment charge (FAC) revenue increased which resulted in an increase of total operating revenue. KUA also experienced a decrease in total net assets, from \$4,644,784 in 2011 to \$4,194,113 in 2012. This is due primarily to a decrease of \$121,816 in current assets and a decrease of \$291,483 in capital assets. Collection of receivables was favorable as the receivable balance generally decreased on all accounts.

Appendix V—Trainings • Conferences • Workshops

Tier Trainings

PASAI's continuing effort to build and sustain public audit capacity had facilitated a strong talent pool of government auditors in the Pacific region. The trainings are alienated into four courses or tiers, as they are labeled, and aimed at providing auditors at all levels with skilled-based training in line with their needs and responsibilities at work. The success of such effort is reflected through high quality government audits undertaken by the FSM OPA.

In FY 2013, Tier 1: Fundamentals of Government Auditing, Tier 2: Intermediate Government Auditing and Tier 4: Managing Government Audits were conducted which provided an opportunity for the National OPA to utilize and enroll their staff. The trainings were all conducted in Nadi, Fiji attracting many participants from SAIs in the Pacific region. Four ONPA staff were fortunate to have the opportunity to participate in the PASAI trainings during this fiscal year.

Tier 1: Fundamentals of Government Auditing

In late February, 2013, Dane William, Auditor I participated in Tier 1: Fundamentals of Government Auditing held in Nadi, Fiji. The event drew 20 participants from supreme audit institutions around

the Pacific. Dane has been with the office for 6 months at the time of his participation and upon his return from Fiji, he commented on how pleased he was to have had the opportunity to attend the training.

The training commenced on February 28 with welcoming remarks and a brief introduction on Tier 1 by PASAI Capacity Building Advisor Sinaroseta Palamo-losefo. Three facilitators from the audit offices of Tonga, Samoa, and Fiji were selected to help conduct the training. Topics discussed during the sessions included role of the government auditors, structure and content of auditing standards (ISSAI), the audit process, designing audit programs, audit documentation on working papers, evidence, basic interview skills, report writing principles, and code of conduct. Having attended the training, Dane recounted that it was valuable and the subjects were relevant and appropriate for him as a new auditor. He is confident that the knowledge acquired will help him improve in the performance of his work as an auditor at the National OPA. Dane successfully completed the training and earned 34 CPE hours (ONPA, March 2013).

Tier 2: Intermediate Government Auditing

Intermediate Government Auditing training was held later in May, 2013 at the same venue. Aisi Mori, Auditor III had the opportunity to participate in the event along with 20 others from SAIs in the region. The focus of the training included planning financial audits, execution of financial audits, reporting financial audits, performance auditing, and other related areas. These areas are relevant in line with Auditor in Charge responsibilities. Aisi is certain that the information acquired will help improve the performance of her work as an Auditor at the National OPA. She successfully completed the training and earned 38 CPE hours (ONPA, May 2013).

Tier 4: Management of Government Audits

Management of Government Audits was held on April 8-12, 2013 at the same venue. Senior Auditors Erwihne David and Julinida Weital attended the training along with 20 other participants from 11 Pacific Island States including the Commonwealth of North Mariana Islands, Cook Islands, FSM-National, Kosrae, and Pohnpei State, Fiji, Kiribati, Nauru, Palau, Papua New Guinea, Samoa, Solomon Islands and Tuvalu.

The training was intended for senior managers who have at least six to seven years of experience with audit institutions or related work. The course covered critical aspects of successful management of government audits including strategic planning, audit portfolio management, quality assurance and risk management control plans (ONPA, April 2013).

Graduate School audit training

In late November, 2013, Auditors Aisi Mori and Dane William participated in the "Written Communications for Auditors" training sponsored by Graduate School USA, in Dallas, Texas. The course was instructed by prominent former Professor at the University of Maryland, Kevin Dungey. The event lasted for 3 days and drew 16 participants mostly from the state of Texas.

The training focused primarily on communicating the results of audits clearly and effectively to readers. Seven modules were presented during the three day training covering the following topics: understanding readability and usefulness; understanding audit writing as part of job process; designing a deductive, reader focused style; creating unified and coherent paragraphs; writing clear sentences; reviewing effectively; and controlling punctuation and grammar. It was an advantage for the ONPA Auditors to participate in such event because it enhanced their writing skills.

Both Auditors Aisi Mori and Dane William completed the training and gained more knowledge on writing a quality audit report. They each earned 24 CPE hours for successfully completing the training (ONPA, December 2013).

3i Management SMOG

INTOSAI Development Initiative (IDI) and Pacific Association of Supreme Audit Institutions (PASAI) hosted two management workshops, which were held back to back in Nadi Fiji. The 3i Management Workshop was aimed at increasing awareness in the implementation of the international auditing standards for the region. It was attended by thirty one (31) participants comprising the heads and deputies of the government.

The Strategic Management and Operational Guideline (SMOG) introduce the strategic management tools. The workshop involves guidelines for developing a strategic management plan that suits the government audit organization in the PASAI region. The participants comprised of 20 deputies of the SAI's. Representing the Office of the National Public Auditor, are our very own Public Auditor Haser Hainrick and Audit Manager Manuel San Jose (ONPA, December 2013).

Risk Based Approach to Financial Audit

In mid November 2012, three audit staff from the OPA participated in an online program sponsored by INTOSAI Development Initiative (IDI) in cooperation with the United Nations Institute for Training and Research (UNITAR). The program was designed to aim at enhancing SAI's awareness pertaining to financial audits, with a particular emphasis on providing training using tools in adopting a risk-based approach to financial audit. The three participants from the OPA were Senior Auditor Julinida Weital, Auditor III Keller Phillip, and Auditor I Vanessa Sigrah. The program was delivered through e-learning via the internet, using the UNITAR's e-learning platform. To become eligible for the IDI-UNITAR completion certificate, participants were required to maintain at least 80% score in the session end quizzes.

The five week e-learning course covered various topics relating to risk-based approach. Five modules were discussed during the period of the course covering such topics as Introduction to Risk Based Approach to Financial Auditing, Detailed Audit Planning 1, Detailed Audit Planning 2, Audit Execution, and Evaluating Misstatements and Reporting Auditor's Opinion. Weekly tests, quizzes, assignments, and exercises were given during the five week course based on a case study. Regardless of their tight schedule and regular workload, the OPA participants were able to complete and maintain a passing score that satisfied their certificate requirements.

In late February 2013, the Public Auditor received a letter from IDI congratulating the OPA participants for successfully completing the online training course. The management of the National OPA is proud of its staff's accomplishments (ONPA, November 2013).

Watson Training

From June 4-6, 2013, auditors, investigators, and administration staff from the Office of the National Public Auditor participated in the Watson Training conducted by Dr. Tom Watson at the FSM Post Office in Kolonia. The participants took various courses synonymous to their line of work. The training courses include Developing Goals and Performance Standards for managers and supervisors, Manager and Supervisor Reinforcement and Coaching Training, Excellent Customer Service, Improving Internal Customer, Effective Time Management, and Performance Evaluation Training.

DOI IG Audit Training

The Office of the National Public Auditor and Pohnpei State Auditor's Office hosted a three-day audit training held at the Pohnpei State Hospital Conference Room from July 10 to July 12, 2013. The training was conducted by the US Department of Interior's Office of Inspector General.

Some of the topics covered during the training included the following:

- A review of the Accounting Process
- Financial Audits and Standards
- Government Audits and Standards
- Performance Audits
- Inspections and Evaluation standards
- Single Audits

The 3-day training proved to be very beneficial to both offices as ideas were being shared, and discussions among trainees and facilitators led to a comprehensive understanding of key aspects relating to the efficiency and effectiveness of audits. Participants were able to use real life applications and experiences to relate to certain topics covered during the training (ONPA, July 2013).

24th Annual APIPA Conference

Staff at the Office of the National Public Auditor, along with other finance managers and staffs from other departments at the National and State Government, participated in the 24th Annual Conference of the Association of Pacific Islands Public Auditors (APIPA) from September 16 - September 20, 2013 in Saipan, CNMI. Four tracks provided to participants were Basic Audit, Audit Supervisory, Finance and Advance Finance. Three courses were offered for each of the four tracks, which included Auditor's Responsibilities to Deter and Detect Fraud, Presentation Skills for Auditors and Interview Techniques for the Audit Track; Skills for Leading and Managing Audit Projects, Internal Controls for Auditors and High Impact Audit Planning for the Audit Supervisory track; Enhancing Internal Control, An Organization's Responsibility in Establishing Performance Measures and Assessing Risk In Your Organization for the Finance track; and Governmental Pension an Retiree Health Plan, Streamlining the Grants Process and Process Improvement in Finance Operations for the Advance track.

24th Annual Association of Certified Fraud Examiner

The Association of Certified Fraud Examiner holds its annual conference at the Aria Hotel, Las Vegas from June 23-28, 2013. About 2,600 participants from all over the world attended the conference. The ACFE is the world's largest anti-fraud organization and premier provider of anti-fraud training and education. Among its members are auditors, investigators, law enforcement officers, security professionals, executive managers and other professions whose job involves preventing, detecting, or deterring fraud. The ACFE is focused on reducing fraud worldwide and inspiring public confidence in the integrity and objectivity within the profession. Representing the Office of the National Public Auditor to this conference were Chief Investigator Kelly Samuel, Investigators Dacy Pelep, Pernes Samuel and Tracy Ardos.

Certified Governmental Auditing Professional (CGAP) Certification Training

As part of ONPA's staff capacity building effort, all staff participated in CGAP certification training to prepare for CGAP examination. The CGAP Training started on September 31, 2012 and ended on February 14, 2013. The facilitators selected some of the participants to schedule and take the exam sometime during the year.

The CGAP certification, sponsored by the IIA, is one of the most prestigious certifications that can be attained by auditors of government organizations and activities. The requirements include high levels of education and professional experience, along with successfully passing a rigorous, written exam about the field of governmental auditing. Some of the subjects covered include the following; auditing standards, codes of ethics, governance, risk/control frameworks, governmental auditing environment, practice, and methodologies and skills.

The training was conducted by ONPA Audit Manager Manuel San Jose, former ONPA Audit Supervisor J. Robert (Bob) Hayes. The qualifications of the facilitators include many years of experience in the field of auditing and internal control. They both have achieved several different certifications in the profession of auditing during their careers (ONPA Annual Report Fiscal Year 2012, February 2013).

Strategic Plan FY 2014-2016

From July 15-19 2013, all the staff at the Office of the National Public Auditor (ONPA) held a one week workshop of reviewing and updating its Strategic Plan. The planning include strategic management and framework, components of strategic planning, analysis of the internal and external environment, quantitative and qualitative approach of selecting audits, development of corporate, business and operational plans, implementation of strategies, monitoring and evaluating results, and linkage to the FSM National Strategic Plan.

Through various exercises and assessments, the ONPA touched upon the Strengths, Weaknesses, Opportunities and Threats or SWOT Analysis. The workshop further acknowledges the vision, mission, values, goals and objectives of the office and the operational and implementation plan. With the reviewing and assessing of the Strategic Plan, the office also set prioritization of audits from the audit universe by merits of significance and importance. The one week strategic planning aimed at the activities and priorities for fiscal years 2014 through 2016 (ONPA, September 2013).

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Acknowledgements

This annual report was prepared by the FY 2013 Annual Report Committee:

Clayton Eliam, Single Audit Specialist
Dane William, Auditor
Tracy Ardos, Investigator
Vanessa S. Tareg, Auditor/Chair of the Committee

Edited by: Haser Hainrick, Public Auditor and Manuel San Jose Jr., Audit Manager

Report Fraud, Waste and Abuse?

Contact Us!

Office of the National Public Auditor

Mailing Address: P.O. Box PS-05 Palikir, Pohnpei FSM 96941

Telephone No.: (691) 320-2862/ 2863

Facsimile No.: (691) 320-5482

Hotline No.: (691) 320-6768

Website: www.fsmopa.fm